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Report on the International Comparison Programme prepared by the World Bank

Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-second session,** the Secretary-General has the honour to transmit to the Statistical Commission the report of the World Bank on plans for the global International Comparison Programme. The Commission may wish to review the plans and consider the recommendations proposed in paragraph 25 of the report.

* E/CN.3/2002/1.

** See *Official Records of the Economic and Social Council, 2001, Supplement No. 4* (E/2001/24), chap. I, sect. A.

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International Comparison Programme

Report of the World Bank

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I. Introduction

1. At its thirty-second session, the Statistical Commission reaffirmed its support for a credible International Comparison Programme (ICP). In particular, the Commission:

(a) Agreed on the fundamental importance of generating high-quality purchasing power parities through the ICP as a tool for improved comparisons of living standards and recognized the potential of the ICP for building national statistical capacity in the areas of prices and national accounts;

(b) Reaffirmed its support for a credible ICP and welcomed the efforts of the World Bank in developing its project proposal for a global ICP;

(c) Restated its concerns about securing necessary funding for the success of the Programme. In that context, the Commission requested the World Bank to follow up on its project proposal and reconsider the amount and duration of funding that is necessary. The Commission requested the international agencies to raise the visibility of the Programme and the need for secure funding at the highest level of their agencies;

(d) Indicated the need for the development of a comprehensive project plan for implementation of the proposed ICP strategy and requested the World Bank to develop the plan in consultation with the Friends of the Chair;

(e) Affirmed the critical importance of strong project management for the programme;

(f) Requested the existing Friends of the Chair to continue their efforts until the thirty-third session of the Statistical Commission;

(g) Urged members and the specialized agencies to mobilize efforts at the political level to promote support for the project.

2. The present report describes work undertaken by the World Bank and other agencies in response to the Commission's decisions and recommendations, and invites the Commission to consider a number of further decisions and recommendations that will be needed if the ICP is to begin implementation in 2002.

II. Overall approach and strategy

3. The overall approach to a new round of the ICP was discussed by the Commission at its thirty-second session. The project proposal developed by the World Bank was modified to take into account the comments and recommendations of the Commission and has been discussed with the Friends of the Chair, with the regional commissions and other agencies, and with specialists. In general, there has been widespread agreement with the approach proposed. The overall objective is to re-establish the confidence in the purchasing power parity (PPP) data by completing a new round of the ICP successfully in the rest of the world, not already covered by the ongoing programme managed by the Organisation for Economic Cooperation and Development (OECD) and the Statistical Office of the European Communities (Eurostat). The aim is to improve data quality by directly addressing the concerns raised in the report submitted to the Statistical Commission on the evaluation of the International Comparison Programme (the so-called Ryten report) (see E/CN.3/1999/8). To that end, the proposal emphasizes:

(a) Building a coalition of stakeholders and promoting the programme throughout the international community;

(b) Emphasizing the links between the ICP and national statistical activities, especially price collection, national accounts and household surveys;

(c) Providing incentives for countries to participate by helping to meet the marginal costs in less developed countries and by ensuring that participation in the ICP will help countries to develop national statistical capacity;

(d) Ensuring adequate and technically competent resources allocated to overall management and effective governance at both the global and regional levels;

(e) Undertaking research and development work to address important technical problems and to improve the efficiency and effectiveness of the programme.

III. Work programme

4. In the summer of 2001, the Bank circulated a draft work plan to interested parties, including the Friends of the Chair and the regional commissions. The plan has been amended to take into account the comments received and it provides a detailed timetable for the ICP, and also spells out the research and development work that needs to be completed. A summary of the ICP work plan is contained in the annex.

5. Based on the overall work plan, regional work programmes have also been prepared and discussed with stakeholders.

IV. Research and development

6. The Ryten report, as well as a joint OECD/World Bank international meeting held in February 2001, have identified a number of critical areas in which research and development work is needed. A number of studies therefore have been identified and are now in progress or are about to be initiated (for details, see annex, para. 5).

7. In order to review the results of the research projects described in the annex and integrate them into the work programme, three activities are planned for the period immediately following the thirty-third session of the Commission:

(a) First, an international conference will be held in Washington, D.C., including staff of international and regional organizations involved in the ICP, the authors of the reports and other additional experts;

(b) Second, a new ICP handbook will be prepared based on the research findings and the results of the conference discussions. The handbook will include an expanded section on practical guidelines for price collection and will serve also as a reference guide and a step-by-step compilation manual;

(c) Third, price data capture software will be developed to provide for the detailed specification of product characteristics and permit the checking of consistency of values in specific fields. It will be fully integrated with the data-processing software developed for PPP aggregation.

8. Finally, no theoretical or statistical model currently underlies the ICP. Such a model is needed to guide the future development of the programme. Basic research is needed to develop a foundation for the ICP in economic and statistical theory, based on the overall objectives of the programme. That research will have a long-term perspective and should provide a framework for the long-term development of the ICP.

V. Financing

9. The ICP proposal developed by the World Bank provided three options for the overall cost, depending on the level of coverage in terms of both countries and items to be covered. The options and estimated costs over a period of three years are:

(a) **Option 1**: including 118 countries in all five regions and collecting PPP data for GDP and its main sub-aggregates in all regions (estimated cost over three years, including an allowance for contingencies: $13.7 million);

(b) **Option 2**: covering 80 countries in all five regions and collecting PPP data for GDP and its main sub-aggregates (estimated cost over three years, including contingencies: $11.6 million);

(c) **Option 3**: covering just 70 countries in only four regions and restricting data coverage to consumption items only (estimated cost, including contingencies: $9.9 million).

10. In consultation with the Friends of the Chair and other experts, including the regional commissions, the consensus is to adopt option 1 provided that the required resources can be raised. Option 1, therefore, is preferred.

11. The World Bank has prepared a fund-raising strategy with the following main components:

(a) Five categories of funding agencies have been identified: international development agencies, regional organizations, bilateral aid donors, international foundations and multinational corporations;

(b) International agencies have been invited to collectively provide $4.2 million for global management and coordination, reporting and evaluation, as well as covering any contingency costs for the programme as a whole. The three main

sponsors, the International Monetary Fund (IMF), the United Nations Development Programme and the World Bank, will provide the majority of this portion of the costs;

(c) Regional agencies such as development banks and the regional commissions, have been asked to finance coordination and management at the regional level, at a total cost of about $2.7million;

(d) Bilateral donors (the OECD Development Assistance Committee donors) have been approached to finance the additional costs of data collection in developing countries, including a contribution to survey costs, technical backstopping, training of staff and dissemination, a total of $5.1 million;

(e) Foundations with a focus on international poverty reduction and development have been asked to fund specific research projects and some training in areas that are important for developing countries. An estimated total fund of $0.5 million will be needed for those purposes;

(f) Multinational corporations have been approached to donate hardware and software for data collection and analysis at the country level, an equivalent total cost of about $1.3 million.

12. The aim of the strategy is to provide as much flexibility as possible so that agencies wishing to contribute may do so in a single payment, with phased contributions over time or in kind, by seconding staff, providing administrative back-up and other facilities, or by providing the resources for meetings, training programmes etc.

13. At the time of writing, the fund-raising campaign is in progress and more up-to-date information will be before the Commission in a background document. As of 30 November 2001, the fund-raising position is shown in the table.

Summary of the fund-raising position as of 30 November 2001

Constituency	*Target contributions*	*Expressions of support*	*Percentage of total*
	(Millions of United States dollars)		
International organizations	4.2	1.3	31
Regional partners	2.7	2.7	100
Bilateral agencies	6.9	2.5	36
Total	**13.8**	**6.5**	**47**

International organizations: the World Bank has already committed $1 million from its core budget. A request will be prepared for an additional $3 million from the Development Grant Facility. IMF has committed $0.3 million and has also offered assistance in kind, although the details have yet to be finalized. Among the other international agencies positive expressions of support have been received from the World Health Organization. On the other hand, the World Trade Organization, the Food and Agriculture Organization of the United Nations and the United Nations Industrial Development Organization have responded that they are unable to make a financial contribution.

Regional partners: all the regional development banks and the regional commissions have been contacted. Sufficient pledges of support in kind have been received to cover all the anticipated costs of regional management (Africa: African Development Bank; Asia: Economic and Social Commission for Asia and the Pacific and Asian Development Bank; Latin America: Economic Commission for Latin America and the Caribbean; Commonwealth of Independent States (CIS)/Eastern Europe: OECD; Middle East and West Asia: Economic and Social Commission for Western Asia and Arab Monetary Fund).

Bilateral donors: the United Kingdom has expressed support and has provided an immediate $0.3 million, and hopes to be able to contribute up to an additional $2 million. The Government of Australia has also expressed support and offered $0.5 million to support PPP surveys in Asian and Pacific countries. Negotiations are in progress with other donor countries.

Foundations and multinational corporations: contact has been made with a number of foundations and negotiations are in progress.

14. By the end of November 2001, therefore, if existing expressions of support were translated into specific pledges, either in the form of contributions to a central fund or in kind for specific activities, just under half (47 per cent) of the expected costs over the period 2002 to 2005 would have been met. If the additional $3 million for the World Bank Development Grant Facility is also included — and there was considerable support for that proposal — then expected contributions would have amounted to just over two thirds of the total. The World Bank believes, therefore, that there is currently sufficient support and sufficient likelihood that the remaining funds will be found to proceed to launch a new round of the ICP in 2002.

VI. Governance arrangements

15. In order to provide for global coordination and management of the ICP, the project proposal prepared by the World Bank provides for an international governing body, an advisory body and international secretariat. The proposal outlined three alternatives for the international secretariat:

(a) **Option 1**: basing the secretariat within an existing international organization;

(b) **Option 2**: setting up an independent organization;

(c) **Option 3**: contracting out the secretariat functions.

16. Feedback from the Friends of the Chair as well as other agencies and individual experts has indicated that option 1 is preferred. It has been suggested that the secretariat be located in an agency that has a worldwide mandate, has a strong interest in the success of the programme as a user of the data and has the required technical capacity and expertise. Further guidance on that matter is sought from the Commission because actions will need to be put in place very shortly if the secretariat is to be established in time for the formal launch of the ICP.

17. Further work is needed to define the terms of reference and composition of the international governing body. It should include representatives of the main stakeholders, especially participating countries, the financing agencies and the Statistical Commission. The governing body will be responsible for the overall strategic framework for the ICP as well as monitoring progress and reporting to stakeholders.

18. The advisory group will be responsible for providing technical advice and for monitoring the quality of PPP data. It will consist of technical specialists with recognized expertise and an international reputation in that area. It is hoped that the advisory body could incorporate the existing Friends of the Chair group, supplemented with additional expertise, as appropriate.

VII. Regional management

19. In line with previous rounds of the ICP, implementation will depend on the involvement and support of regional organizations. It is simply not possible for a single international secretariat to monitor the implementation of the programme in more than 100 countries simultaneously. The proposal provides, therefore, for appropriate regional organizations to take responsibility for managing the programme in non-OECD countries (it is assumed that OECD and Eurostat will continue to coordinate the programme in the developed countries).

20. Discussions have been held with regional agencies and the following have agreed to take responsibility for management of the ICP in their regions.

(a) Africa: African Development Bank;

(b) Latin America: Economic Commission for Latin America and the Caribbean;

(c) CIS countries: CIS Committee of Statistics;

(d) Middle East and Western Asia: Economic and Social Commission for Western Asia;

(e) Asia: Economic and Social Commission for Asia and the Pacific.

VIII. Country participation

21. It is anticipated that the regional management agencies will take responsibility for recruiting countries to participate in the ICP. The numbers of countries indicated in the proposal are based on initial

feedback from the various agencies involved. Subsequent discussions have indicated that there is a considerable level of support from counties in all regions.

IX. Next steps

22. Prior to the formal launch of the next round, it is proposed that the World Bank continue to prepare for the launch of the programme. Before the formal launch of the ICP, the following will need to be in place.

(a) Completion of the programme of research and development as outlined above;

(b) Agreement on the terms of reference and composition of the international governing body;

(c) Recruitment for and establishment of the international secretariat;

(d) Setting up of appropriate arrangements to manage and account for international funds;

(e) Setting up the advisory body.

23. It is anticipated that the formal launch of the ICP will take place later in 2002. Data collection will take place over a period of between six and nine months during year 2 of the programme and the reference year will be 2003. If that can be achieved, then data processing and analysis can begin in each region before the end of year 2 and will be completed at the global level by the middle of year 3. Thus, dissemination of PPP data in various formats will take place during year 3, with the final report being disseminated during the first half of 2005.

24. It is also proposed that a formal, independent evaluation of the programme will take place in year 3.

X. Recommendations

25. In the light of the information provided above, the Commission may wish to:

(a) Take note of the report of the World Bank on the ICP;

(b) Recommend that a new round of the ICP be launched in 2002, with the reference year to be 2003;

(c) Recommend that, provided that adequate financial and technical resources can be secured, the first option for implementation be selected, that is, the ICP will take place in all regions, cover about 118 countries and include gross domestic product and all the main sub-aggregates;

(d) Review the options for the global coordination and management of the programme and provide advice on the appropriate location for the international secretariat;

(e) Review the arrangements for regional management;

(f) Recommend that member States participate in the programme;

(g) Extend the term of the existing Friends of the Chair group, at least until the formal launch of the programme and the establishment of the international governing body and the advisory group.

Annex

Summary of the ICP work plan

1. In May 2001, World Bank staff initiated a programme of studies and plans to prepare for the ICP. In the summer of 2001, the Bank circulated a draft work plan[a] to interested parties that summarized the programme of studies and other plans, provided a detailed timetable for the overall process for conducting the 2003 ICP, and spelled out the role of the programme of studies and plans in that overall process. The present annex provides a summary and update of the work plan.

2. Three components of the work plan are examined here. First, the preparation of plans by regional organizations for conducting the ICP is discussed. Next, several studies of methodological and statistical problems are described that must be solved to complete an ICP of high quality in a timely way. Third, several essential activities that complement or follow through on those two major activities are discussed.

I. Regional work plans

3. In the summer of 2001, World Bank staff contacted key regional organizations in Asia, Latin America and Africa, soliciting their participation in the ICP. Bank staff also requested that the regional organizations submit regional work plans and specify the regional staff and other resources that will be necessary for the conduct of the ICP.

4. By the fall of 2001, those organizations had submitted the documents requested. The regional partners have pledged resources valued at US$ 2.7 million, a level of support considered adequate to the role that those organizations must play in the ICP. They have also submitted preliminary plans for the assignment of staff and for the regional organization of the ICP effort. For example, on 28 October 2001 the Executive Secretary of the Economic and Social Commission for Western Asia (ESCWA) sent a letter committing ESCWA to the regional ICP effort and transmitted a document setting forth a regional strategy and a tentative work plan and budget. ESCWA spending on the project was estimated at US$ 380,000 over the three years 2002-2004. Those preliminary plans will be further developed and finalized in the coming months.

II. Research projects

5. The Ryten report, the World Bank's April 2001 proposal for the ICP, as well as other studies, have all pointedly noted the critical role, in the effort to conduct a high-quality ICP, of research into difficult problems of survey methodology. Accordingly, the plans initiated in May 2001 included the conduct of several studies of key methodological issues. The following studies are under way or are about to be initiated:

(a) Survey framework: this study will set forth a survey framework for price collection according to ICP requirements. Among other things, it will develop explicit guidelines regarding coverage; selection of localities, including rural and urban areas; and the number and types of outlets. Guidance will also be given regarding exact product matching and quality adjustment. (Investigator: Jacob Ryten);

(b) Micro and macro PPP linkage methods (two complementary projects): participants in a recent international conference on PPPs[b] called for research on longstanding methodological issues related to regional linking to address both micro- and macro-linkage problems. One aim of the research will be to develop methods that would link regions so as to approximate the results that would be obtained from a world comparison of prices of comparable quality items across all countries. Two separate projects for research are designed to provide complementary approaches to this issue. (Investigators: Erwin Diewert for one study, Alan Heston and Bettina Aten for the other);

(c) Improving the quality and usefulness of prices collected (first alternative approach): this study contrasts the past method of estimating price parities with a proposed hedonic approach, which builds on the country product dummy methodology used in some instances in past ICP rounds. It notes the shortcomings of the past methodology, which focuses on the computation of national average prices, and examines the merits of the proposed hedonic approach as well as the difficulties of that approach. A draft of the study has been completed and suggestions for revision have been sent to the investigator. (Investigator: Alan, Heston);

(d) Improving the quality and usefulness of prices collected (second alternative approach): a second study will explore an alternative but still complementary approach to improving prices collected, under which hedonic equations would not be fitted. Instead, for every item in a basic expenditure heading, detailed specifications — outlet type, locality, product characteristics, etc. — would be collected. Ratios of prices between exactly matched goods would be calculated and PPPs would then be computed by averaging those ratios. National average prices would not be computed. (Investigator: Michael Ward);

(e) Integration of CPI and ICP work: an IMF study and a World Bank study have concluded that integration of consumer price index and ICP price data is critical to the improvement of the ICP programme. A new study has been commissioned for examination of data in four Asian countries to take stock of the feasibility of collecting ICP data through national CPI programmes and to determine what additional work is necessary to support the ICP survey. Similar work is planned for four African countries. (Investigator: Sultan Ahmad);

(f) Integration of ICP with poverty measurement and monitoring: PPPs for a standardized poverty basket have been in high demand for a long time. This paper will investigate all outstanding issues related to poverty-specific PPPs and recommend step-by-step procedures to develop ICP measures for poverty measurement. The work will be done through research in four Asian countries. Similar work is planned for four African countries. (Investigator: D. S. Prasada Rao);

(g) Development of expenditure weights for aggregating primary price data: detailed expenditure data are needed to develop weights for aggregating primary price data. Absence of good weights will result in errors in PPPs. To study the best means of developing such weights, this research will draw on national accounts data as well as household survey data. As part of the effort, a new World Bank household survey database will be developed. (Investigators: Thilakaratna Ranaweera, Barbro Hexeberg, and Chandrakant Patel);

(h) Measurement of PPPs for medical, educational and other services (two alternative approaches): for some services, it is impossible to estimate PPPs solely from price data collected through within-country surveys. In most countries, there are no markets or weak and imperfect markets for education, medical services, general government services and services of non-profit institutions. PPPs must be estimated from a combination of national data on expenditures on those services, some locally collected prices, and national and cross-country datasets on the quantity and quality of inputs and/or outputs of services. Two studies will examine independently how best to do this and will offer alternative or perhaps complementary approaches. (Investigators: Edwin Dean and Gyorgy Szilagyi);

(i) Integration of ICP and ICOP methods of PPP compilation: this study will examine the possible benefits of integrating the ICP (an expenditure-based approach) with an alternative approach to international comparisons, the so-called International Comparisons of Output and Productivity (ICOP) methodology. The latter is an industry-based approach, measuring relative prices, output and productivity by industry. In particular, the ICP may benefit greatly from using the ICOP methods for the estimation of PPPs for capital goods. (Primary investigator: Bart van Ark; other researchers will collaborate with van Ark).

III. Essential follow-up activities

A. Conference on ICP

6. In March 2002, immediately following the thirty-third session of the Statistical Commission, a conference will be held to examine the reports on the research studies described above. Staff members of international and regional organizations involved in the ICP, the authors of the reports and additional experts will attend. The main purpose of the conference will be to examine and comment on the reports and to begin the task of translating the reports into concrete guidelines and instructions for the ICP survey.

B. New ICP handbook

7. A new, more detailed and more practical ICP handbook is needed. The handbook will build on the reports that will be discussed at the conference, perhaps especially the reports on the survey framework and price collection. In accord with the Ryten report, the handbook should include an expanded section on

practical guidelines for price collection, and should also serve as a reference guide and a step-by-step compilation manual.

C. Data capture and integrated processing software

8. Price data capture software is under development at the World Bank. It will provide for detailed specification of product characteristics and permit the checking of consistency of values in specific fields. It will be fully integrated with the data-processing software developed for PPP aggregation. In its final form, it will of course be consistent with and facilitate compliance with the new ICP handbook.

D. Research on the theory underlying the ICP

9. No theoretical or statistical model currently underlies the ICP. Such a model is needed to guide the future development of the survey. The objectives of the ICP programme should be examined and those objectives should be used to develop a foundation for the ICP in economic and statistical theory. While such research should begin soon, it will not be completed in time to influence the new handbook; however it should eventually provide a framework for the long-term development of the ICP, including guidance for an overall survey sampling model and weighting and aggregation procedures. It might be possible to select an investigator for such a project soon and, if this were done, the investigator would be expected to exchange views at the March 2002 conference with other participants and explore the most fruitful ways of approaching this research task.

Notes

[a] International Comparison Programme (ICP 2003): detailed draft work plan and timetable.

[b] International Seminar on Purchasing Power Parity: Recent Advances in Methods and Applications, joint World Bank-OECD seminar, Washington D.C., 30 January-2 February 2001.